

MEMORANDUM



TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

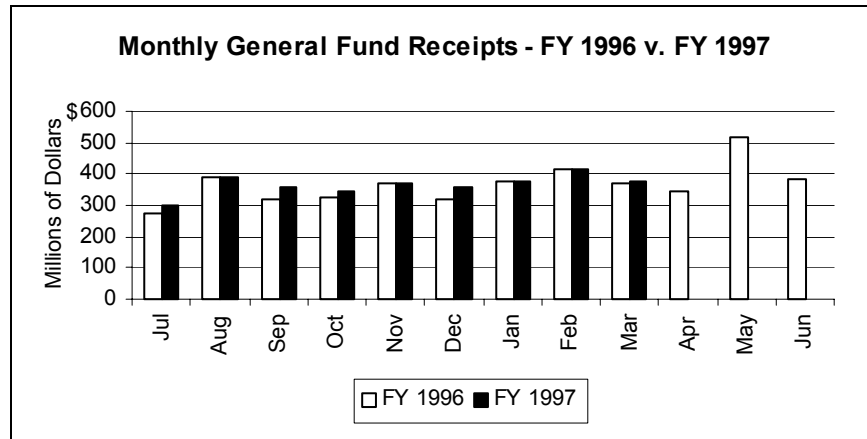
FROM: Dennis C. Prouty

DATE: April 1, 1997

General Fund Receipts Through March 31, 1997

The attached spreadsheet represents total FY 1997 General Fund receipts, with comparable figures for FY 1996. These can be compared to the latest FY 1997 estimate (\$4.627 billion) set by the Revenue Estimating Conference (REC) on November 21, 1996. The estimate represents an increase of \$220.4 million (5.0%) compared to FY 1996. The FY 1998 estimate of \$4.835 billion represents an increase of \$208.0 million (4.5%) compared to the FY 1997 estimate.

The REC will meet the morning of April 10 to revisit the current FY 1997 and FY 1998 revenue estimates.



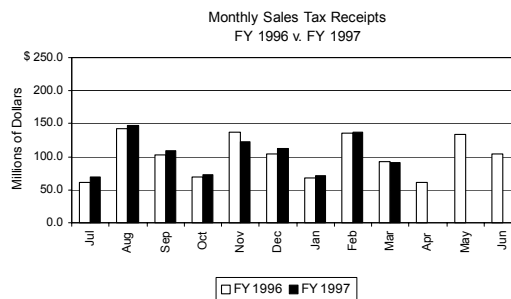
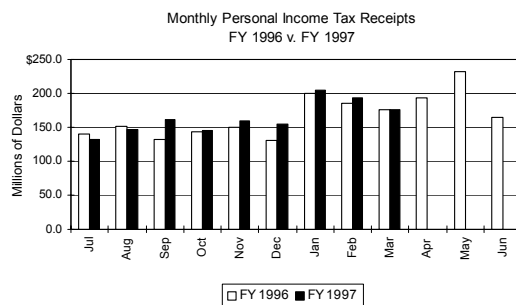
Total year-to-date General Fund receipts for the first three quarters of FY 1997 increased 4.3% compared to FY 1996. Tax receipts showed an increase of 4.4%. Personal income tax receipts increased 4.6%. Sales tax receipts were 2.2% higher than the previous fiscal year. Use tax receipts increased 7.7% compared to FY 1996, and corporate income tax receipts showed a 7.5% increase. Receipts collected in the month of March were 3.2% greater than March 1996. FY 1997 receipts collected during the third quarter exceeded the FY 1996 level by 1.0%.

Gross personal income tax revenues received in March were \$0.8 million (0.3%) less than March 1996. None of the three components of income tax receipts performed particularly well. Return payments and estimate payments were down 3.4% and 8.4%, respectively. Receipts from withholding grew 0.7%.

Farm returns are a major component of third quarter return payments. The Department of Revenue and Finance issued a report on return receipts collected during the “farm period,” and concluded timing effects may have artificially reduced the amount collected by as much as \$7.0 million. Adjusted for this factor (assuming most of the \$7.0 million will be recaptured), return receipts year-to-date exceeded last year’s level by as much as 6.0%. Actual return receipts year-to-date are 4.1% below the FY 1996 level.

Withholding receipts may be artificially low as well. The largest share of withholding receipts is received from companies that remit payment twice each month. If a semi-monthly period contains three Fridays, the amount collected for that period is inflated compared to a period with only two Fridays. The month of March last year had five Fridays compared to four this March. The last two months combined is a better measure, in which FY 1997 withholding exceeded the FY 1996 amount by 3.5%. Using a third quarter comparison, withholding receipts exceeded year-ago levels by \$22.6 million (5.6%).

The REC income tax estimate of \$2.109 billion represents a projected increase of 5.4% compared to FY 1996. Individual income tax receipts for the remainder of the year need to grow 7.3% (compared to the last quarter of FY 1996) to reach the current estimate.



Sales tax receipts in March decreased 0.1% compared to March 1996. The lingering effects of the local option reconciliation payment brought to your attention four months ago is still being reflected in the year-to-date figure, which is 2.9 percentage points below the REC estimate. This payment, paid from the quarterly receipts account, was approximately \$15.0 million higher than last year’s payment.

For the third quarter, which does not include the local option effect, sales tax receipts exceeded last year’s level by \$5.5 million (1.9%). At this point, it is very unlikely that sales tax receipts will recover enough to reach the REC estimate. Receipts for the remainder of the year will need to grow 13.8% to reach the current estimate.

Corporate income tax receipts in March were 6.0% greater than March 1996. Year-to-date receipts exceeded FY 1996 levels by \$13.3 million (7.5%). The current REC estimate of \$294.4 million represents an increase of 6.1% compared to actual FY 1996 corporate income tax receipts. To reach the REC estimate, receipts for the remainder of the year will need to grow 3.8% compared to the last quarter of FY 1996.

Franchise tax receipts through the first three quarters of FY 1997 totaled \$20.2 million, an increase of \$3.7 million (22.1%) compared to actual FY 1996 receipts, providing further evidence that tax avoidance measures utilized by financial institutions may be diminishing. Franchise tax revenues received in the last quarter need to keep pace with the fourth quarter of FY 1996 to reach the current REC estimate of \$30.0 million.

Racing and gaming receipts - The November REC anticipated total racing and gaming receipts to reach \$113.5 million in FY 1997, \$60.0 million of which is deposited in the General Fund. This level would result in a transfer of \$53.5 million to the Rebuild Iowa Infrastructure Account in FY 1997. All racing and gaming receipts going to the General Fund have been collected. For comparison purposes, no racing and gaming receipts were deposited in the General Fund after February last year either. Consequently, growth in General Fund receipts will have to be generated from other revenue streams.

Receipts Compared to REC Estimate

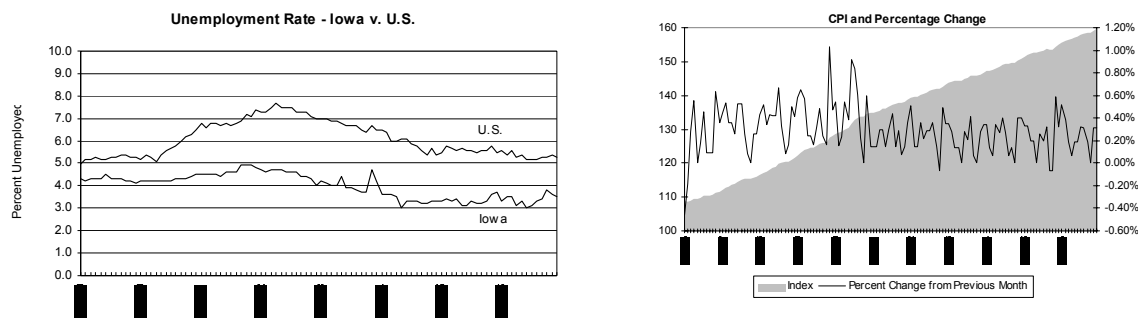
The November REC FY 1997 estimate of \$4.627 billion represents an increase of 5.0% compared to actual FY 1996 General Fund receipts. Assuming each month is expected to increase by the REC estimate, the estimate for the first three quarters was short by approximately \$23.3 million (unadjusted for any timing factors). On an adjusted basis, receipts through March exceeded the same period in FY 1996 by approximately 4.6%, leaving a current shortfall of \$13.0 million, which is very close to the \$15.0 million loss on the local option sales tax payment.

General Fund receipts for the last quarter of FY 1997 will have to exceed the FY 1996 level by \$85.7 million (6.9%) to reach the current REC estimate. On an adjusted basis, fourth quarter receipts will have to grow approximately 6.1%. Approximately \$1.246 billion was received in the fourth quarter of FY 1996.

Status of the Economy

The seasonally adjusted percent unemployed for the State decreased one-tenth of a point to 3.5% in February. The unemployment rate a year ago was 3.7%. Iowa's total employment hit a record high of 1,557,300. The U.S. unemployment rate in February decreased to 5.3% from the January rate of 5.4%.

Consumer prices in February increased three-tenths of a point. The Consumer Price Index (CPI) through February 1997 was 159.6 (1983=100), which is 3.0% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through February 1996.



The Economic Forecasting Council met at Drake University on March 18. Charles Whiteman, the Chair of the Council, projected total Iowa personal income will grow 5.9% and 5.6% in 1997 and 1998, respectively. These estimates are not significantly different from the estimates provided at the November meeting. Similarly, non-farm employment is projected to increase a total of 1.6% over the two-year period. The Council also reported the agricultural sector is expected to sustain high levels of output and income for the next several years.

Whiteman also provided updated General Fund receipts estimates. The FY 1997 estimate was revised downward to 5.3% from the November level of 6.4%. The FY 1998 estimate was revised upward to 7.1% from the previous estimate of 6.3%. Over the two-year period, the revisions represent a slight decrease in revenues.

Information related to State General Fund receipts continues to be made available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Jon Muller (515-281-4611).

